



Good Neighbors

San Diego
Housing Commission

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REPORT

DATE ISSUED: January 7, 2005

ITEM 102

REPORT NO.: HCR 05-03
For the Agenda of January 14, 2005

SUBJECT: Proposed Loan, Sale-Leaseback Agreement and Predevelopment Loan Modification With Housing Development Partners of San Diego To Develop 52nd Street Senior Apartments (Council District 7)

SUMMARY

Issue: Should the San Diego Housing Commission recommend that the Housing Authority approve a plan to facilitate the site acquisition and new construction of an 88-unit rental housing development for seniors by taking the actions recommended?

Recommendation 1: That the San Diego Housing Commission recommend that the Housing Authority take the following actions:

- (a) Approve an assignment of the Option to Purchase the land for a total of \$1,825,000 (including \$25,000 closing costs) from Housing Development Partners of San Diego to the San Diego Housing Commission and enter into an arrangement whereby Housing Development Partners of San Diego will lease back the property under a 65-year lease agreement as outlined in this report;
- (b) Approve a residual receipts loan of up to \$2,372,000 at the applicable federal funds rate to the Housing Development Partners of San Diego and/or tax credit limited partnership, as outlined in this report; and
- (c) Authorize the Chief Operating Officer of the Housing Commission, or designee, to execute all documents necessary to facilitate the financing.

Recommendation 2: Extend the term from June 30, 2004 to June 30, 2006 on the \$50,000 predevelopment loan to Housing Development Partners for the property located at 52nd and El Cajon Boulevard. All other terms and conditions will remain in full force and effect.

Recommendation 3: Ask the City of San Diego to take such actions necessary to grant the HOME funds to the San Diego Housing Commission to effectuate the acquisition of the property on terms and conditions referenced herein and that the City assume administration of the HOME grant with the San Diego Housing Commission on terms and conditions referenced in this report.



Fiscal Impact: An expenditure of \$1,825,000 of HOME and/or HELP funds to acquire land. If this project receives an allocation of approximately \$14,912,000 in federal tax credit financing during the calendar year 2005, an Auditor’s Certificate committing \$2,372,000 for the project will be issued, using HOME or other funds, for a total San Diego Housing Commission investment of \$4,197,000. Approval of the recommendation would also postpone repayment of the \$50,000 predevelopment loan until September 30, 2006.

Certificate of Funding Availability:

Certificate No: 05-079
 Amount: \$1,825,000
 Revenue Source: Various
 Division: Housing Finance & Development
 Line Item: Loans & Grants

HOME Program Compliance: An acquisition/new construction loan is an eligible activity under the HOME Program. The proposed rents are at or below HOME guidelines. The HOME loan funds may also be used to pay off the two predevelopment loans.

Affordable Housing Impact: This project will create 72 one-bedroom units and 16 two-bedroom units (including a two-bedroom resident manager unit). Nine units will be affordable at 30% or less of the AMI (\$16,450 for a family of two), nine will be affordable at 40% or less of AMI (\$21,900 for a family of two), 44 will be affordable at 50% or less of AMI (\$27,400 for a family of two), and 26 will be affordable at 60% or less of AMI (\$32,880 for a family of two). The precise number of units in the above identified affordability levels may change if required by the California Tax Credit Allocation Committee. Regardless of any changes, at least 62 of these units will be available to households at 50% or less of the Area Median Income (AMI).

Under the lease agreement, the restricted units will be affordable for a term of 65-years, with initial rents as follow:

| Unit Type Bed/Bath | Unit Size (Sq. Ft.) | Number Of Units | Monthly Rent @ 30% | Monthly Rent @ 40% | Monthly Rent @ 50% | Monthly Rent @ 60% | Utility Allowance |
|-----------------------|------------------------|-----------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------------------|
| 1/1 | 610 | 72 | 7 @ \$353 | 7 @ \$482 | 36@ \$610 | 22@ \$739 | \$32 |
| 2/1 | 796 | 15 | 2@ \$423 | 2 @ \$577 | 8 @ \$731 | 3 @ \$885 | \$40 |
| Total | | 87 | 9 | 9 | 44 | 25 | |

Environmental Review: The City of San Diego Environmental Analysis staff has determined that the project is exempt from review under the California Environmental Quality Act (CEQA)

pursuant to Section 15332 of the CEQA Guidelines. It is currently in review per the National Environmental Policy Act (NEPA) pursuant to 24 CFR 58.

Community Planning Group Review: The proposed development was presented at the October 6, 2003 meeting of the City Heights Area Planning Committee where it received unanimous project approval. The Developer has initiated discussions with the Area Planning Committee and will return to this Committee prior to the Planning Commission.

Previous Related Action: On May 10, 2002, the Housing Commission approved an unsecured predevelopment loan of up to \$50,000 to Housing Development Partners for 52nd and El Cajon Boulevard.

Future Related Action: None.

BACKGROUND

Housing Development Partners of San Diego (HDP) submitted an application for land acquisition and new construction financing under the Housing Commission's current Notice of Funding Availability (NOFA) for the Construction, Acquisition, and Operation of Affordable Rental Housing. HDP intends to apply for nine percent tax credit financing from the Tax Credit Allocation Committee during calendar year 2005. HDP has not yet contacted any tax credit investor.

The developers intend to acquire the subject site from its current owner based on an option to purchase. It is proposed that HDP would assign its option to purchase to the Housing Commission. The developers are seeking approval from the San Diego Housing Commission for the acquisition of the property for its current appraised value of \$1,800,000 and a leaseback of the land to the developers for an annual lease payment of 4.5% of annual gross rents (estimated at \$29,944).

Upon receipt of a nine percent tax credit allocation for the project, HDP is also seeking a \$2,372,000 permanent loan to pay off predevelopment and construction costs.

In June 2002, the Housing Commission funded a \$50,000 predevelopment loan to Housing Development Partners (HDP) to pay a portion of the predevelopment costs associated with the project. Subsequent to the funding of the Housing Commission's predevelopment loan, HDP received a \$550,000 predevelopment loan from the Local Initiatives Support Corporation for the 52nd and El Cajon Boulevard site. The combined loan funds were used to obtain all environmental and geotechnical reports, engineering studies, architectural and construction drawings, and permit processing fees.

DISCUSSION

The Borrower

Housing Development Partners of San Diego, is a qualified IRC 501(c)(3) California nonprofit public benefit corporation. It operates under a Board of Directors, which includes two members of the Board of Commissioners of the San Diego Housing Commission, the Chief Executive Officer of the San Diego Housing Commission, and four at-large directors designated by the San Diego Housing Commission. HDP's administrative staff includes the legal counsel of Sullivan Wertz Mc Dade and Wallace. HDP partners with the private sector for property management, development, and consulting expertise.

HDP developed and owns Knox Glen (54 affordable housing units for families in the Lincoln Park community). In May 2002, the nonprofit acquired the Mason Hotel (a 27 unit single room occupancy hotel located at 1345 Fifth Avenue). Housing Development Partners is also a general partner with Barone Galasso & Associates in the Island Village Apartments (a 280-unit rental-housing complex in downtown San Diego). In 2004, Housing Development Partners acquired Casa Colina Apartments (75 senior rental units at 5207 52nd Place) that was at risk of losing its affordability restrictions. All of these projects are partially funded by the San Diego Housing Commission; the borrower is in compliance on all outstanding loans.

If this project receives an award of nine percent tax credits, HDP will form a limited partnership that will comprise the legal ownership entity in conformance with standard tax credit requirements and practice. The tax credit partner has not yet been selected.

The Development

The proposed project will have 88 rental apartment units for seniors in a four-story building surrounding an interior courtyard. The project will include: an on-site management office and community room; on-site laundry facilities; sun and patio decks; 81 parking spaces including seven surface spaces and 74 spaces in an underground garage. The project will have an aesthetically pleasing architectural style with private patios; each floor will be accessible by elevator. The unit mix is designed to appeal to the target population of seniors and the project will be designed to meet the special needs of seniors. Total floor area will be 80,971 square feet and 23,576 square feet of garage area. The proposed project will be designed and built utilizing materials that will increase energy efficiency by at least 15% to 20% above Title 24 energy standards. Michael Jones Architect, Inc., a local architectural firm, is designing the project.

The proposed site is vacant and there will be no relocation of households for the proposed development. The site is rectangular shaped, approximately 36,000 square feet, and is currently used as the vacant rear portion of an existing mixed-use commercial shopping center on El Cajon Boulevard. Access to the commercial shopping center's rear portion (the proposed site) is from 52nd Street (on the west) and from Dawson Street (on the east). The

site is near bus service on El Cajon Boulevard and near shopping, both in the adjacent commercial center and in the College area. The proposed residential development is intended to complement concurrent redevelopment efforts nearby. The adjacent shopping center is undergoing refurbishment and two obsolete hotels across EL Cajon Boulevard have been demolished to make way for new housing on a site owned by the San Diego Housing Commission.

The Funding Request

The Housing Commission's total contribution would be up to \$1,825,000 for land acquisition (including an estimated \$25,000 in acquisition costs), and a \$2,372,000 loan to HDP for predevelopment and development costs. The estimated total Housing Commission funds contribution would be:

| | |
|---------------------|--|
| \$1,825,000 – | Land Acquisition (Grant from the City to San Diego Housing Commission for the Housing Commission to acquire the fee interest in the real property) |
| <u>+2,372,000 -</u> | HDP Loan secured by leasehold deed of trust and improvements. |
| \$4,197,000– | Total Housing Commission Funds Contribution (\$47,693 per unit) |

It is recommended to utilize HELP funds as interim financing for the acquisition phase of the property due to HOME Program financing time constraints on acquisition and construction start dates. The state funded HELP program provide loan financing at three percent interest. If HELP funds are utilized for acquisition financing, HOME funds will be used to reimburse this expenditure upon receipt of tax credit financing.

Sale-Leaseback Agreement:

HDP currently has an option to purchase the vacant land from the current owner for \$1,800,000 (the current appraised value). It is proposed that HDP assign its option to purchase to the Housing Commission. The Housing Commission would obtain HOME grant funds from the City to purchase the land and to pay for acquisition, title, escrow, and closing costs. The Housing Commission would own the fee simple interest in the land and would hold title to the property in the Housing Commission's own name. The Housing Commission would then lease the land to HDP for 65 years.

The Housing Commission would receive an annual lease payment of 4.5% of annual gross rents (estimated to be \$29,944 yearly). The actual ground lease terms would be similar to other Housing Commission long-term leases as approved by the Housing Commission's General Counsel.

The Financial Plan (Sale-Leaseback Agreement)

Total Acquisition Cost: The acquisition cost is \$1,825,000.

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|-------------------------|---|
| Appraised Value: | The estimated “as-is” market value of the land only is \$1,800,000. |
| Security: | The Housing Commission will have title to the land. The mortgage leaseholder will require a lease term that is ten years beyond the 55-year affordability restrictions. A Memorandum of Ground Lease would memorialize the 65-year lease. |
| Payments on the Lease: | The Housing Commission would receive an annual lease payment of 4.5% of annual gross rents (estimated at \$29,944/year one). The Housing Commission’s General Counsel shall approve the actual lease payment and lease terms. |
| Rent Restrictions: | Same as loan “Affordability Terms.” |
| Occupancy Restrictions: | Same as loan “Occupancy Terms.” |
| Management Plan: | A Management Plan has been submitted for approval. |
| Lease Provisions: | Terms and conditions of the Lease shall be as approved by General Counsel of the San Diego Housing Commission and its Chief Operating Officer following the general form utilized in the Talmadge Senior Village Transaction. |

Loan Financing:

The San Diego Housing Commission would loan at the applicable federal rate (currently at 4.76 % annual interest) up to \$2,372,000 to the proposed limited partnership entity if the San Diego Housing Commission’s financial participation is approved by the Board of Commissioners and the Housing Authority and an allocation of nine percent tax credits is awarded to the project. This proposed loan commitment would be for a period of one year from approval in order to allow for application in a minimum of two tax credit application rounds.

The Financial Plan (Loan Only)

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|-------------------------|--|
| Total Development Cost: | The total development cost is estimated at \$20,568,557 (exclusive of land acquisition.) |
| Loan Amount: | Not to exceed \$2,372,000. |
| Recourse: | The loan will be a recourse loan during the construction period. |

| | |
|-------------------------|--|
| Term of Affordability: | 65 years to comply with mortgage leaseholder requirements require a lease term that is ten years beyond the 55-year affordability restrictions. |
| Affordability Terms: | Under the nine % tax credit program, nine units affordable at 30 percent Area Median Income (AMI), nine units affordable at 40 percent AMI, 44 units affordable at 50 percent AMI, 25 units affordable at 60 percent AMI. |
| Occupancy Terms: | Under the San Diego Housing Commission occupancy requirements, a minimum of 20% of the units would be restricted to residents earning no more than 50 percent of Area Median Income for 18 units, and 80% of the units would be restricted to residents earning no more than 60 percent of Area Median Income for 69 units. The two-bedroom manager's unit is not included in the above. However, the occupancy requirements of the California Tax Credit Allocation Committee for the nine percent tax credit program are lower and would prevail. |
| Deferred Developer Fee: | 10% of developer fee (\$140,000) fee will be deferred and paid off from cash flow. |
| Loan Payments: | <p>When the deferred developer fee has been repaid, annual debt service payments of 50 percent of residual receipts.</p> <p>Annual debt service payments will equal the greater of: 50% of residual receipts or \$11,445 (derived from half the estimated residual receipts at the end of year one). In the event that the \$11,445 amount exceeds the available Residual Receipts, the Housing Commission would waive the right to receive an amount in excess of the available Receipts and instead agree that the Annual Payment Amount shall be satisfied by the payment to the Housing Commission of 100% of the available Residual Receipts.</p> |
| Loan Interest Rate: | Residual Receipts loan at the applicable federal rate (Currently 4.76 % annual interest). |
| Loan Terms: | All due one year after pay-off of first position loan. |
| Cure Rights: | The Housing Commission will have the right but not the obligation to cure any default of any senior loans. |
| Debt Service Coverage: | 1.20 (Year 1) |

- Security: The security for the total \$2,372,000 loan will be a second lien position leasehold deed of trust, secured by the leasehold improvements, junior to a first position leasehold deed of trust in an amount not to exceed \$4 million. The land will be acquired by the Housing Commission free and clear of all encumbrances. A default under the loan or lease shall constitute a cross default.
- Loan to Value: Loan to value is to be determined upon receipt of an as-built appraisal. It is very likely that significant developer equity from the tax credits would result in a favorable loan-to-value ratio.
- Leasehold Trust Deed: The Housing Commission leasehold deed of trust would be in second lien position loan at permanent financing, with a first position loan of \$3,145,000 (but not to exceed \$4 million), both secured by leasehold deeds of trust. The Housing Commission's fee interest will not be encumbered by either deed of trust.
- Equity Investment: An estimated \$14,912,000 tax credit investment.
- Additional Financing: Private lender first position permanent loan of approximately \$3,145,000 for 30 years at 7 % interest.
- Operating Expense: Operating expenses for the development are estimated to be \$27,814 per month (\$316 per unit).
- Pro Forma Assumptions: Income increases are projected at 2.5 % per year; operating expenses at 3.5 % per year; vacancy rate at 5 % per year.
- Replacement Reserves: Replacement reserves of \$26,400 per year (\$300 per unit).

Predevelopment Loan Term Extension

The Housing Commission's \$50,000 predevelopment loan has a loan term of two years. According to the terms of the Promissory Note, all principal and accrued interest (3 %) was due and payable on the earlier of June 30, 2004 or upon funding of the permanent loan for the project, unless extended by the Housing Commission in writing. HDP requested and Housing Commission staff delayed official action on the request for extension in order to present the Board with a comprehensive development plan. An extension of the loan term through June 30, 2006 is recommended. All other terms and conditions of the predevelopment loan will remain in full force and effect.

Risks and Mitigations

The land value will be enhanced by well-designed and constructed residential buildings. When the tax credit financing is received, the Housing Commission will fund a second position loan. The Housing Commission's \$2,372,000 second trust deed will be recorded as an encumbrance against the leasehold. The loan will be well secured by the value of the completed improvements. A default under the loan shall be a default under the leasehold.

It should be noted that the primary funding source for this project is the nine percent tax credit program which is very competitive and frequently oversubscribed. Should HDP not be successful in their pursuit of a tax credit allocation, it is to be expected that they will return to the Housing Commission with a new funding plan that could include a larger gap and different loan terms.

Because the development needs an allocation of tax credits, there is some chance that the project will not be able to proceed as envisioned. In such a scenario, the Housing Commission could hold the land or sell it.

Summary

This project represents an opportunity to serve as a model for similar in-fill developments in City areas with little vacant land, by improving an under-utilized, vacant, asphalt-covered area, and converting it into much needed housing for seniors.

The proposed San Diego Housing Commission participation would help to develop 88 units of affordable senior housing, at a cost to the Housing Commission of \$47,693 per unit. The total development cost to the San Diego Housing Commission of the \$1,825,000 purchase price plus the \$2,372,000 is \$4,197,000. This leverages \$16,371,557 from other sources under the proposed financing plan. In addition, the San Diego Housing Commission would receive lease payments and would own the land so that it could be used for affordable housing purposes in perpetuity.

Disclosure

Commissioners Salas and Yip and Chief Executive Officer of the Housing Commission, Elizabeth C. Morris, are each directors and officers of Housing Development Partners, a California nonprofit public benefit corporation qualified as an Internal Revenue Code Section 501(c)(3) corporation. Commissioner Salas, Commissioner Yip, and Ms. Morris do not receive compensation for their service on the Board of Directors of Housing Development Partners. Pursuant to the provisions of Government Code Section 1091.5(a)(7) and (8), Commissioner Salas, Commissioner Yip, and Ms. Morris each have a "non-interest" as described in Government Code Section 1091.5 and are therefore legally entitled to vote and be counted for quorum purposes.

It is the opinion of Charles B. Christensen, General Counsel for the Commission, that none of the Board members of Housing Development Partners has a financial interest in the development that would legally preclude their participation under the provisions of Government Code Sections 1090 and/or 87100, et.seq., and/or the San Diego Housing Commission's Conflict of Interest Code. This disclosure shall be and is hereby documented in the official records of the San Diego Housing Commission.

Further, under the provisions of Title 24 USC 92.356, none of the individuals involved has a financial interest in the project and/or loan being made and/or other actions being proposed.

ALTERNATIVES

1. The investment could be made as a \$4,197,000 Housing Commission loan to the developer, in which case the developer would retain title to the land and the Housing Commission would pass up an opportunity to achieve greater control of the project and to receive annual lease payments.
2. Do not recommend funding the project. This would result in the loss of the ability to apply for tax credits, which would make this project infeasible for affordable housing development. If the Housing Commission declined to fund this loan, the City of San Diego would lose an opportunity to increase the affordable housing supply by guaranteeing the affordability of 88 units for seniors at 60% or less of the area median income for a period of 65 years.
3. Deny the recommendation to extend the term for the \$50,000 predevelopment loan for 52nd and El Cajon Boulevard. The terms of the Promissory Note allow the Housing Commission to call the loan or forgive the indebtedness if it is deemed to be in the best interest of the Housing Commission.

Respectfully Submitted,

Cissy Fisher
Director of Housing Finance & Development

**Signature on File
With Original Document**

Approved by,

Carrol M. Vaughan
Executive Vice President
and Chief Operating Officer

- Attachments:
1. Location Map
 2. Development Timeline
 3. Development Summary
 4. SDHC Application Form
 5. Disclosure Statement*

For the Agenda of January 14, 2005

Loan to Housing Development Partners of San Diego – 52nd Street Senior Apartments

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6. Financial Statements*

7. Appraisal*

*Distribution of this attachment is limited. A copy is available for review at the Housing Commission office at 1625 Newton Avenue and the office of the City Clerk, 2nd floor, 202 “C” Street.

Information: Carlos C. de Baca/619.578.7586

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ATTACHMENT 2

52nd STREET SENIOR APARTMENTS ESTIMATED DEVELOPMENT TIMELINE

| | |
|--|------------------|
| Housing Commission Consideration* | January 14, 2005 |
| Housing Authority Consideration* | February 2005 |
| SDHC Loan Closing Date/ Land Acquisition | February 2005 |
| CTCAC 9% Application Submittal | March 2005 |
| CTCAC Allocation Meeting for Award | June 2005 |
| SDHC Sale/Leaseback Agreement signed | July 2005 |
| Construction Start | December 2005 |
| Estimated Construction Completion/Full Occupancy | December 2006 |

* Each subsequent consideration is contingent on affirmation of the project from the prior recommending or approval body.

ATTACHMENT 3
Development Summary
January 7, 2005

Name: 52nd Street Seniors
Location: 4310 Dawson Avenue San Diego CA 92115-5249
Description: Affordable Senior Rental Housing
Sponsor(s): Housing Development Partners of San Diego

Unit Affordability

Total # of units: 88
Assisted units: 87
Restricted rents: One-bedroom @ \$353 (30%), \$482 (40%), \$610 (50%),
& \$739 (60%)
Two-bedroom @ \$423 (30%), \$577 (40%), \$731 (50%)
& \$885 (60%)

Market rent: One-bedroom @ \$650-\$750
Two-bedroom @ \$850-\$975

Percent of AMI: 9 units @ 30 percent
9 units @ 40 percent
44 units @ 50 percent
25 units @ 60 percent

Affordability: 55 years

Development Cost

Total development cost: \$20,568,557: \$197 square foot
HC development cost: \$ 4,197,000
Total development cost per unit: \$ 233,734
HC cost per unit (88 units): \$ 47,693
HC subsidy per bedroom @ 104 bedrooms: \$ 40,355

Sources of Funds

(Improvements)
Private Lender (Loan) \$3,145,000
San Diego Housing Commission (Loan) \$2,372,000
Deferred Developer Fee \$ 140,000
Low Income Housing Tax Credits \$14,911,557

Total Development Cost \$20,568,557

Development Summary – Page 2 of 2
January 7, 2005

Pro Forma Summary

| | |
|------------------------------|---|
| Estimated net annual income: | \$ 634,148 (year 1) |
| Estimated annual expense: | \$ 333,773 (year 1): \$3.19 square foot |
| Ground Lease: | \$ 29,944 |
| Estimated residual receipts: | \$ 22,889 (year 1) |